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SUBJECT: 2005 INVESTMENT CLIMATE STATEMENT FOR AUSTRIA

REF: 04 STATE 250356

¶1. Following is 2005 Investment Climate Statement for Austria, keyed to reftel instructions:

Investment Climate Statement - Austria 2005

Introduction

With the European Union's (EU) enlargement in May 2004, Austria's location became central in the EU. As an investment location, Austria, and Vienna in particular, faces growing competition from its Eastern neighbors, all of which are now EU members. Budapest, Prague and Bratislava are competing directly with Vienna for foreign investors. Many have pointed out that direct transportation links among Austria's Eastern neighbors are in some places better then those running through Austria. The Austrian Government has long-term plans to address these infrastructure gaps. However, many view the current state of transport links as a missed opportunity. The government's 2005 corporate tax cut is a major step towards remaining competitive vis--vis Austria's new EU neighbors. Some 360 U.S. companies have invested in Austria and most have expanded their original investment over time.

Austria continues to offer some advantages, but also some challenges to foreign investors. We have sought to describe both below in candid terms for the benefit of potential investors.

A.1. Openness to Foreign Investment

Government attitude toward foreign private investment:

The second Schuessel government -- a coalition between the Austrian People's Party (OVP) and the Freedom Party (FPO) in office since February 2003 -- has continued the comprehensive economic reform program Schuessel had begun in 2000. The government's aim is to streamline government, create a more competitive business environment, and further strengthen Austria's attractiveness as a location for investment. According to many observers, in comparison to other EU member states, Austria has made a major policy shift in recent years by pursuing a balanced budget, pension and health care system reform; creating financial market supervision and competition policy bodies; and implementing a corporate tax cut in 2005. The policy shift addressed long-standing imbalances and should improve the Austrian economy's long-term growth potential. Structural reforms, which the economy still needs, include downsizing the public sector, simplifying and streamlining the social welfare system, raising the labor participation rate, and introducing more flexible work hours. Budget consolidation will remain a goal in accordance with the EMU's Stability and Growth Pact. However, balancing the consolidated public sector budget is now a medium-term goal over the economic cycle. The government continues privatizations.

Austria has been virtually a strike-free country. However, in 2003 Austria experienced two large strikes in response to government pension and railroad reform initiatives. Most observers characterized these strikes as political actions against the government rather than management-labor disputes, and noted that they had limited and only transitory economic impact. Austria has remained virtually strike-free since 2003, despite continued implementation of the government's reform agenda, including contentious issues such as harmonization of different pension systems.

Liberalization and deregulation in the energy and telecom sectors have lowered prices to business users. However, continued barriers to entry and to competition have resulted in only partial liberalization. Charges in some

areas, such as electrical network tariffs, have remained above average, according to the International Energy Agency.

Austria welcomes all foreign direct investment that does not have a negative impact on the environment, particularly those investments that create new jobs in high technology, promote capital-intensive industries, are linked with research activities, improve productivity, replace imports, and increase exports. Austria is a high-tax country, but is becoming increasingly attractive for companies and headquarters. Since 2002, special tax incentives for industrial research are available to stimulate research-based investment. A major tax cut, effective January 1, 2005, reduces the corporate tax rate to 25% from 34%. Because of tax base adjustments, experts estimated the effective corporate tax burden at 22%. At the same time, a highly favorable new provision for group taxation, unique in Europe, allows offsetting profits and losses of group operations (requiring direct or indirect participation of more than 50%, but no other financial, economic or organizational integration) in Austria and abroad. This new group taxation system should offer interesting opportunities for U.S. investors, in particular joint-venture structures, M&A transactions, headquarter companies and simple holding companies without active business, which can also participate in the tax group. The corporate tax cut and group taxation aim to keep Austria competitive vis--vis the neighboring new EU members with their low corporate tax rates.

The Austrian Government assesses the business profits of non-corporations at half the income tax rate to which they would be subject based on the income alone. Austria has no wealth or net worth tax, and no trade tax (Gewerbesteuer), unlike neighboring Germany. As a result of the 2005 corporate and income tax cuts, Austria's share of total tax and social payments should decline from 44.1% of GDP in 2002 (sixth among OECD members in total tax and social payments) to 41.6% in 2005. The government's goal is to reduce the share of taxes in GDP further to 40% by 2010, which will require substantial additional cuts in budget expenditures.

In some regions, Austria also offers special facilities and services ("cluster" packages) to foreign investors. For example, these can include automotive producers or manufacturers of chips, silicon, and high-tech products. Observers do not expect Austria's basic policies toward foreign direct investment to change in coming years. A large number of foreign firms, including some 360 U.S. companies, have invested in Austria and most have expanded their original investment over time.

There are no formal sectoral or geographic restrictions on foreign investment. Austria offers financial and tax incentives within EU parameters to firms undertaking projects in economically depressed areas and underdeveloped districts on Austria's eastern and southern borders. Until the end of 2006, some of these areas are still eligible for subsidies under EU regional and cross-border programs. Most of these subsidies have already been allocated. The only instances of local opposition to investment in the manufacturing sector have arisen out of environmental concerns.

Potential U.S. investors need to factor Austria's strict environmental laws into their decision-making process. Austria has imposed marketing bans on some agricultural biotechnology seeds despite existing EU approvals. The European Commission has not yet taken steps to overturn the bans, despite the fact that the EU's Scientific Committee has found no justification for the bans and the EU Moratorium on new approvals has ended. For future varieties, new EU legislation on the deliberate release of genetically modified organisms and on traceability and labeling requires Austria to allow GMO seeds on the fields and foods in the stores. However, strict liability regulations for research, production, and distribution of GMOs still apply. U.S. investors considering production facilities emitting CO2 in Austria will have to take into consideration Austria's commitment to cut its CO2 emissions by 13% from the 1990 level according to the Kyoto Protocol (1997). They will also have to scrutinize Austria's national implementation of the EU's regulatory framework on greenhouse gas emissions and trading, which enters into force in 2005.

In investor surveys and international rankings, Austria consistently earns high marks for personal security, quality of life, rule of law, skill and motivation of labor, health infrastructure, and mobile phone costs. However, Austria receives low marks for the tax burden, rigid labor practices, patent registration, relative lack of risk capital financing, restrictive immigration laws,

the size of the public sector, and regulatory red tape. With its 2005 corporate tax cut, the government has addressed one major investment disincentive. Surveys show that Austria faces stiffer competition from Central and Eastern European (CEE) markets, as well as from the ten new EU members, particularly the four that border Austria. This competition is especially noticeable in sectors where wage costs are decisive.

Acquisitions, mergers, takeovers, cartels:

The independent Federal Competition Authority (FCA) and a federal public cartel prosecutor are responsible for administering the anti-trust law. In past years, the FCA has not been particularly pro-active, reportedly due to a shortage of personnel.

International acquisitions and takeovers of domestic enterprises are permitted in Austria. International cartels are not prohibited, but are subject to oversight by the cartel court to prevent the abuse of market power. Cartel court consent requires that the applicant refrain from market behavior that would limit or impede competition. Selling below cost is considered one possible abuse of a dominant market position. The cartel court must be notified of mergers and acquisitions if combined worldwide sales are in excess of Euro 300 million (USD 375 million at the current exchange rate of USD 1.00 to Euro 0.80), if domestic sales exceed Euro 15 million (USD 18.8 million), or if two of the firms involved each have worldwide sales exceeding Euro 2.0 million (USD 2.5 million). Anti-trust regulations do not provide for the dissolution of previously completed and approved mergers. An independent energy regulatory authority separately examines antitrust concerns in the energy sector. However, it did not raise objections to a 2002 alliance between the two largest Austrian electricity providers, which captured two-thirds of the market.

The 1999 takeover law applies to both friendly and unsolicited takeovers of corporations headquartered in Austria and listed on the Vienna Stock Exchange. It protects investors against unfair practices, since any shareholder obtaining a controlling stake in a corporation (30% or more of all shares) must offer to buy out smaller shareholders at a defined "fair market" price. An independent takeover commission at the Vienna Stock Exchange oversees compliance.

Screening mechanisms:

Only those foreign investments with Austrian government financial assistance are subject to government overview. Screening is intended only to ensure compliance with EU regulations, which limit such assistance to disadvantaged geographic areas.

Privatization:

In the ongoing privatization of public enterprises, foreign and domestic investors receive equal treatment, in principle. In line with its privatization initiative, the previous government sold 100% of its shares in the Postal Savings Bank, the Dorotheum Auction House and Bank, and the Print Media printing concern. It also divested its remaining 41.1% share of the Austrian Tobacco Company, a 17.4% stake in the Vienna airport company, and a majority of shares in Telekom Austria (TA). In 2003, the second Schuessel government sold its 34.7% stake in Voest-Alpine (VA) steel, a leading European steel producer, and its 25% shareholding in Boehler Uddeholm, an important tool and specialty steel manufacturer. In December 2004, the government sold another 17% in TA to national and international institutional investors. In January 2005, the government sold a 14.7% share in VA Tech, a metallurgy, power generation and infrastructure conglomerate, to Siemens. Siemens already held a 16.5% share and has made a public takeover bid. The government's further near-term privatization plans include selling off the remaining 30.2% shareholding in TA and a minority share in the Postal company.

The Austrian Government has expressed a preference for "Austrian solutions" in many sectors, promoting an Austrian core shareholding through syndicates, including banks, insurance companies, pension funds and industrial enterprises. However, foreign investors have been successful in obtaining shares in important Austrian industry sectors, including the telecom sector, in Austria's largest bank, Bank Austria, the Austrian Tobacco Company, and VA Tech.

Treatment of foreign investors:

There is no discrimination against foreign investors, but they are required to follow a number of regulations. Although there is no requirement for participation by Austrian citizens in ownership or management, at least one manager must meet residence and other legal requirements. Non-residents must appoint a representative in Austria. Expatriates are allowed to deduct certain expenses (costs associated with moving, maintaining a double residence, education of children) from Austrian-earned income. A 2003 amendment of the Austrian immigration law requires permanent legal residents to take German language and civics courses. Foreign executives and their dependents (who are technically in one of the affected visa categories) are exempt.

Investment incentives:

Until 2006, 41% of Austria's land area is eligible for support under various EU structural fund programs. The Austrian federal, provincial, and local governments also provide financial incentives within EU guidelines to promote investments in Austria. Incentives under these programs are equally available to domestic and foreign investors, and range from tax incentives to preferential loans, guarantees and grants. Most of these incentives are available only if the planned investment meets specified criteria (e.g., implementation of new technology, reducing unemployment, etc.). Tax allowances for advanced employee training and R&D expenditures are available. The government has merged various institutions providing financial incentives into a "one-stop shop" named the Austria Wirtschaftsservice (further information, in German language only, is available under http://www.awsg.at and http://www.foerderportal.at).

A.2. Conversion and Transfer Policies

There are no restrictions on converting or transferring funds associated with foreign investment. In Austria, all cross-border capital transactions for non-residents and residents, including the acquisition of Austrian securities, debt service, and the repatriation of profits, interest payments, dividends, and proceeds from the sale of an investment are fully liberalized.

The Euro, a freely convertible currency, is the only legal tender in Austria. Use of the Euro shields investors from any exchange rate risk in the entire Euro-area, where the Euro is legal tender. The eleven other member countries of the European Monetary Union (EMU) are: Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.

The European Central Bank (ECB) is responsible for setting monetary policy in the EMU area. The ECB's primary goal in defining monetary policy is to maintain price stability. The Austrian National Bank has one seat and one vote on the ECB's Governing Council.

A.3. Expropriation and Compensation

Expropriation of private property in Austria is rare and may proceed only on the basis of special legal authorization. The government can instigate it only when no other alternative for satisfying the public interest exists; when the action is exclusively in the public interest; and when the owner receives just compensation. The expropriation process is fully transparent and non-discriminatory towards foreign firms.

A.4. Dispute Settlement

The Austrian legal system provides an effective means for protecting property and contractual rights of nationals and foreigners. Additionally, Austria is a member of the International Center for the Settlement of Investment Disputes. The New York Convention of 1958 also grants enforcement of foreign arbitration awards in Austria. There have been no recent reports of bilateral investment disputes.

A.5. Performance Requirements/Incentives

Austria is in compliance with the World Trade Organization Trade Related Investment Measures (TRIMS) agreement. There are virtually no restrictions on

foreign investment in Austria and foreign investors receive national treatment in the main. However, some requirements exist. For example, at least one manager must meet residency and other legal qualifications. Non-residents must appoint a representative in Austria.

The Austrian Government may impose performance requirements when foreign investors seek financial or other assistance from the government, although there are no performance requirements to gain access to tax incentives. There is no requirement that nationals hold shares in foreign investments, that the share of foreign equity is reduced over time, or that there be a technology transfer.

The U.S. and Austria are signatories to a 1931 Treaty of Friendship, Commerce, and Consular Rights. The Austrian Immigration Law restricts the overall number of visas, but a few non-immigrant business visa classifications, including intra-company transferees/rotational workers and employees on temporary duty, are eligible for visas with no numerical limitations. Recruitment of long-term overseas specialists or those with managerial duties is under quota controls. The 2002 Amendment of the Austrian Immigration Law more clearly defined employment-based immigrants as multinational executives/managers or similar professionals who are self-employed, and streamlined procedures for obtaining visas and work authorization. The 2002 integration policy requiring immigrants to attain a certain minimum level of competence in the German language will not affect executives and their dependents. The 2002 Immigration Amendment was intended to address problems reported by U.S. and other investors with availability of visas and temporary work permits for non-managerial staff for training in Vienna, by creating a category of temporary trainee visas in the case of joint ventures. Annual immigration quotas for 2005 are to be cut from 8,050 to 7,500. These cuts are supposed to come largely at the expense of executives or managers, a visa category that is apparently undersubscribed.

A.6. Right to Private Ownership and Establishment

Foreign and domestic private enterprises are free to establish, acquire, and dispose of interests in business enterprises, with the exception of railroad infrastructure, some utilities, and a few state monopolies, such as gambling. As the government continues to pursue privatization, it is gradually opening up some of these industries to private investment as well. For example, the Austrian Government implemented legal changes in 1997 and 2001 to allow private radio and private terrestrial TV under a limited number of licenses. The government dismantled the postal monopoly for wire-transmitted voice telephony and infrastructure in 1998. The Austrian electricity market was partially liberalized in February 1999 for bulk purchasers and in October 2001 for consumers. The Austrian gas market was fully liberalized in October ¶2002. However, by law, federal and provincial governments maintain at least 51% majority shares in all electricity providers. In line with EU regulations, the government is working to liberalize the postal letter mail monopoly. The ambitious privatization program of the Austrian Government foresees full or partial privatization of many important Austrian companies. In most business activities, the law permits 100% foreign ownership. Foreign direct investment is restricted only when competing with monopolies and utilities. License requirements, such as in the banking and insurance sectors, apply equally to domestic and foreign investors. The latter, however, is dependent on reciprocity. Specific regulations on requirements for joint ventures do not exist.

A.7. Protection of Property Rights

The Austrian legal system protects secured interests in property, both movable and real. Mortgages are recognized, if they are registered in the land register and the underlying contracts are valid. The law recognizes mortgages, if they are registered in the land register and the underlying contracts are valid. The land register provides a reliable system for recording interests in property. For any real estate agreement to be effective, the agreement must be entered with the land register. This requires approval of the land transfer commission or the office of the provincial governor. Any interested party has access to the land register.

Austria has effective laws to protect intellectual property rights, including patent and trademark laws; a law protecting industrial designs and models; and a

copyright law. Legislation also protects three-dimensional semiconductor chip layout design. In line with EU requirements, Austria has a law against product piracy to prevent trade in counterfeits. Austria is one of a number of EU member states that have yet to implement the EU Directive on Legal Protection of Biotech Inventions. The Austrian Government plans to transpose the EU Directive into national law in 2005. The Biotechnology Industry Organization (BIO) had requested the United States Government place Austria on the Special 301 Watch List. Several U.S. pharmaceutical companies have also reported problems obtaining timely remedy in Austrian courts in defending process-based patents against generic competitors.

Austria is a party to the World Intellectual Property Organization (WIPO) and several international property conventions, including the European Patent Convention, the Patent Cooperation Treaty, the Madrid Trademark Agreement, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure, the Universal Copyright Convention, the Brussels Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite, and the Geneva Treaty on the International Registration of Audiovisual Works. In compliance with the World Trade Organization Treaty on Intellectual Property (TRIPS), Austria extended patent terms so that patents on inventions are valid up to 20 years after application. Since both the United States and Austria are members of the "Paris Union" International Convention for the Protection of Industrial Property, American investors are entitled to the same kind of protection under Austrian patent legislation as are Austrian nationals. In accordance with the Madrid Agreement, Austria's protection period for trademarks is ten years, with the option to extend for another ten years, if registration is renewed before expiration.

Various regulations protect trade secrets. For example, the right to privacy, the data protection law, and the federal statistics law prevent publication of production data, provided there are four producers or less.

Austrian copyright law grants the author the exclusive right to publish, distribute, copy, adapt, translate, and broadcast his work. Infringement proceedings, however, can be time consuming and complicated. Austria's copyright law is in conformity with the EU directives on intellectual property rights. A 2003 amendment to the Austrian Copyright Act implemented the EU Directive on the Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society and regulates copyrights of works on the Internet, protection of computer programs, and related damage compensation.

A.8. Transparency of the Regulatory System

Austria's legal, regulatory, and accounting systems are transparent and consistent with international norms. Proposed new laws and regulations are usually published in draft form for public comment.

The Austrian Government has made some progress in streamlining its complex and cumbersome permit and paperwork requirements for business licenses and permits. However, a 2002 AmCham/U.S. Embassy survey of investor confidence identified "unpredictable and inflexible bureaucratic rules" as one of four major concerns. The government maintains that the time for obtaining all necessary permits has been reduced to about three months, except for large projects requiring an environmental impact assessment. With the 2002 reform of the Business Code, the government implemented a "one-stop shop" for a business permit, but not yet including plant and building permits. The reform also sought to facilitate establishment of new businesses by simplifying requirements and reducing the number of business categories to two (those requiring official approval and those requiring none).

Tax and labor laws, as well as health and safety standards, are applied uniformly and do not influence the sectoral allocation of investments. The Austrian investment climate has become more conducive for business since Austria became a member of the EU. However, inflexible shop-opening hours and working times remain a major concern of many businesses. The government plans to implement more flexible work time regulations, including at the company level, and more liberal regulations for shop opening hours. However, virtually all shops will remain closed on Sundays.

A.9. Efficient Capital Markets and Portfolio Investment

A broad variety of credit and portfolio investment instruments are traded in an open capital market. Foreign firms have access to this local market without restrictions and are free to use foreign credit markets as well. The Vienna Stock Exchange, reorganized as a stock corporation and privatized in 1999, connected its cash market to Xetra, Frankfurt's electronic trading system, so that traders worldwide have on-screen information and direct access to all stocks listed in Vienna. In May 2004, the Vienna Stock Exchange, together with several Austrian banks, obtained a majority stake in the Budapest Stock Exchange with the goal to develop more efficient capital markets in both Hungary and Austria, push market capitalization, and provide better services to clients. Quotations on the Vienna Stock Exchange are in the Euro and the fee system is transparent.

All listed companies must publish quarterly reports. Criminal penalties for insider trading are in place. The Austrian Financial Market Authority (FMA), similar to the U.S. Securities and Exchange Commission, is responsible for policing irregularities on the stock exchange. The FMA, with support from the Austrian National Bank, is also responsible for supervising banks, insurance companies, securities markets, and pension funds.

Buy-back regulations implemented in 1999 have considerably expanded the previously very limited possibilities for issuers to acquire their own shares. Austria's regulations comply with international standards permitting buy-backs as an instrument to influence a company's capital structure, to reduce excess liquidity, or to prepare for listings on exchanges abroad.

The legal, regulatory, and accounting systems are transparent and consistent with international norms. Austrian regulations governing accounting standards will provide U.S. investors with improved and internationally standardized financial information. Austrian-based companies, including subsidiaries of U.S. parent companies, are required to present their consolidated financial statements in accordance with International Accounting Standards (IAS) or Generally Accepted Accounting Principles (US-GAAP). Promotion of good corporate governance is making progress. The Austrian Code of Corporate Governance was introduced in October ¶2002. However, to date, few companies have signed on to it.

Austria has a highly developed banking system with worldwide correspondent relationships, as well as representative offices and branches in the United States and other major financial centers. Austrian banks also have a huge network in many of the ten new EU members and other Central and Eastern European countries and the Balkan countries. Total assets of Austria's five largest banks amounted to about Euro 394 billion (USD 493 billion) in 2003.

Austria's venture capital market is underdeveloped, but has expanded significantly in recent years. The volume of venture capital raised in Austria during 1999-2001 was Euro 556 million (USD 695 million), 170% more than during 1996-1998, according to a study by the Vienna-based Austrian Private Equity and Venture Capital Organization. Due to the weak economy and slow investments in 2003, fund raising slowed to Euro 227 million (USD 284 million) from 231 in 2002, venture capital disbursements fell from Euro 146 to 113 million (USD 141 million).

A.10. Political Violence

There have been no incidents of politically motivated damage to foreign businesses. Civil disturbances are extremely rare.

A.11. Corruption

The Austrian penal code contains penalties for bribery, which include a fine of up to Euro 500 (USD 625) per day for up to 360 days or up to two years imprisonment for the payer of a bribe and up to five years imprisonment for the recipient of a bribe. Under the penal code, any person who bribes a civil servant, a foreign official, or a manager of an Austrian public enterprise is subject to criminal penalties. Austria has ratified the OECD Anti-Bribery Convention, which entered into force in July ¶1999. Corresponding penal code legislation has been in place since summer 1998. The government has prepared draft legislation to introduce criminal responsibility

for legal persons and some partnerships, and with fines of up to 15% of annual sales. After parliamentary approval, the new law should take effect later in 2005.

Prior to the implementation of the OECD Convention, tax deductibility of bribes and any gray market payments (regardless of their title as operating, income-related or other expenses) was abolished. The non-deductibility covers all payments and other material grants, the granting or accepting of which is subject to legal penalties.

The Federal Ministry of Justice has the primary responsibility for prosecuting acts of corruption, but in the case of public tenders, the Federal Chancellery may also become involved. Corruption allegations, often anonymous, have arisen regarding various government procurements; but no case thus far has reached the public prosecutor's evidentiary threshold for pursuing prosecution.

¶B. Bilateral Investment Agreements

Austria has bilateral investment agreements in force with Albania, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Bolivia, Bosnia-Herzegovina, Bulgaria, Cape Verde, Chile, China, Croatia, Cuba, Egypt, Estonia, Georgia, Hong Kong, Hungary, India, Iran, Jordan, Kuwait, Latvia, Lebanon, Libya, Lithuania, Macedonia, Malaysia, Malta, Mexico, Moldova, Mongolia, Morocco, Oman, Paraguay, Philippines, Poland, Romania, Saudi Arabia, Slovenia, South Korea, South Africa, Tunisia, Turkey, Ukraine, United Arab Emirates, Uzbekistan, Vietnam, Yemen, and Serbia and Montenegro.

Agreements with Algeria, Namibia and Zimbabwe have been signed, but are not yet in effect. An agreement with North Korea is in initial stages of discussion. Until new agreements take effect, the existing agreements with the former Czechoslovakia continue to apply to the Czech Republic and Slovakia, and that with the former Soviet Union to Russia and Tajikistan. Austria has begun negotiations with Russia for a new agreement. The government's goal is to achieve a total of 75-80 bilateral investment agreements. Under all these agreements, investment disputes that cannot be settled amicably may be submitted to the International Center for Settlement of Investment Disputes or an arbitration court according to the UNCITRAL arbitration regulations.

The U.S. and Austria are parties to a bilateral double taxation treaty covering income and corporate taxes, which went into effect on February 1, 1998. Another bilateral double taxation treaty covering estates, inheritances, gifts and generation-skipping transfers has been in effect since 1982.

¶C. OPIC and Other Investment Insurance Programs

OPIC programs are not available for Austria. Since May 1997 Austria has been a member of the Multilateral Investment Guarantee Agency (MIGA).

¶D. Labor

Austria has a highly educated and productive labor force of about four million people, of which 3.5 million are salaried employees and 500,000 are self-employed or farmers. Austria's labor market is more rigid than that of the U.S., but more flexible than that of some other EU members. Depending on labor demand, government policies limit the number of foreign workers to between 8-10% of the salaried workforce. In 2004, the number of guest workers, predominantly from the former Yugoslavia and Turkey, averaged 362,700. Austria has adopted a 7-year gradual transition period vis--vis eight of the ten new EU members (except Cyprus and Malta) before fully allowing free movement of labor. The government can also apply the transition period to certain business sectors. After two years, Austria can automatically extend the restrictions, and after another three years, the EU Commission can approve a further extension.

Compared to other EU countries, Austria had a relatively low unemployment rate of 4.5% in 2004, according to EU statistics. The outlook for 2005 suggests an unemployment rate of about 4.4%, assuming real economic growth of 2.2%, falling only slightly to 4.2-4.3%% in 2006, assuming real growth of 2.3-2.4% that year. Despite the low unemployment rate, no potential labor market shortage is expected in the medium term. While demographic trends indicate little growth in the labor

force over the next few years, other factors, such as expected moderate economic growth, productivity gains, industrial restructuring, federal employment incentives for women and older employees, the gradual phase-out of early retirement, and government efforts to reduce civil service employment are intended to offset demographics. Moreover, net gains from migration will easily compensate the negative impact of low birth rates on the overall labor supply. Latest long-term population forecasts expect the working age population (15-60 years) to increase to 5.13 million by 2013, up from 4.98 million in 2001, but to decline again to below 5 million by 2021. However, the government's measures to activate available labor reserves should mitigate a potential shortage.

In general, skilled labor is available in sufficient numbers. However, regional shortages of highly specialized laborers in specific sectors such as systems administration, metalworking, health, and tourism services may occur. The government's labor market policy is oriented towards the EU goals of raising the labor market participation rate to 70% (currently 69.2%) by 2010, that of women to 60% (currently 61.7%), and that of workers aged 55-64 to 50% (currently 30.4%). The government introduced new regulations requiring recipients of unemployment benefits to be more flexible regarding which jobs they would accept. Companies hiring workers age 50 and above are eligible for financial bonuses, but face penalties for laying off workers within this age group. The government still plans to introduce more flexible work hours and a monthly minimum wage of Euro 1,000.

Austrian social insurance is compulsory and comprises health insurance, old-age pension insurance, unemployment insurance, and accident insurance. Social insurance contributions are a percentage of total monthly earnings and are shared by employers and employees. Although EU requirements facilitated greater job flexibility, terms of employment are closely regulated by law in Austria and include working hours, minimum vacation time (5 weeks), holidays, maternity leave, statutory separation notice, and protection against dismissal. The new severance pay system implemented in 2002 is designed to enhance worker flexibility further. Employers contribute 1.53% of their monthly pay to severance pay funds and employees have the right to carry their accrued entitlement with them when changing the employer. A new regulation since July 1, 2004 allows parents with children under the age of seven who have worked for at least three years to choose part-time work until the children reach age seven. The new regulation only applies to parents working for companies with at least 20 employees.
Labor-management relations have generally been harmonious in post-WWII Austria, as reflected in extremely low strike figures in past decades. The two major strikes in May/June 2003, in response to the government's pension reforms, were a political action against the government and did not reflect management-labor disputes. Since then, no major work stoppages have occurred. About 40% of the work force belongs to a union. At least one-third of the members of a corporation's board of directors must come from the firm's staff, and the company management on various issues must regularly consult shop stewards. These co-determination rights of employees are comprehensive and regulated by law.

Collective bargaining revolves mainly around wage adjustments and fringe benefits. While existing legal provisions stipulate a maximum workweek of 40 hours, collective bargaining agreements provide for a workweek of 38 or 38.5 hours per week for more than half of all employees. Labor's long-standing demand for a further reduction of the workweek has recently been countered by some calls from industry to extend the 40-hour workweek without pay compensation. While the government plans to expand existing regulations for flexible work hours, it has no plans to raise the work week again to 40 hours or more, as is under discussion in Germany.

¶E. Foreign-trade Zones/Free Ports

Austria has no foreign trade zones anymore. It only has two customs warehouses in Vienna and Tyrol province, where investors may store products of foreign origin without the obligation to pay duty. Their impact has been limited, and foreign investors have shown little interest.

¶F. Foreign Direct Investment Statistics

Following record inflows in 2000 and 2001 and a significant drop in 2002, new foreign direct investment

(FDI) rebounded in 2003 to Euro 6.5 billion (USD 8.1 billion), equal to 2.9% of GDP, the third highest ever. New FDI in the first half of 2004 amounted to Euro 1.7 billion (USD 2.1 billion). This raised the value of FDI stock in Austria to Euro 47.9 billion (USD 59.9 billion), equal to 21.2% of GDP, at the end of 2003 and to Euro 49.6 billion (USD 62.0 billion) by mid-2004. Of the year-end 2003 amount, U.S. firms invested an estimated Euro 5.0 billion (USD 6.2 billion) or about 10% of the total.

New Austrian direct investment abroad reached Euro 6.2 billion (USD 7.7 billion) in 2002 and another Euro 6.2 billion (USD 7.7 billion) in 2003, equal to 2.7% of GDP. In the first half of 2004, the amount was Euro 2.5 billion (USD 3.1 billion). This raised the value of Austrian direct investment stock abroad to Euro 46.7 billion (USD 58.4 billion), equal to 20.7% of GDP, at the end of 2003 and to Euro 49.2 billion (USD 61.5 billion) by mid-2004.

Note: Figures converted at the 2004 annual average exchange rate of USD 1.00 for Euro 0.80.

Source: Austrian National Bank statistics on Austrian outward and inward direct investment at the end of 2002, published in June 2004. Available 2003 and 2004 data are from the Austrian National Bank's current account statistics.

Table 1:
Foreign direct investment in Austria 1998-2004

Year	Number of firms with direct foreign participation	Nominal capital ---(Euro billion)---	Total equity (1)
1998	2,525	7.2	20.1
1999	2,542	7.2	23.4
2000	2,588	11.1	32.7
2001	2,607	9.8	39.0
2002	2,633	10.1	41.5
2003 (2)	n/a	n/a	47.9
2004 (3)	n/a	n/a	49.6

Footnotes:
(1) total equity comprises nominal capital, statutory and voluntary reserves, profits/losses carried forward, and net credit position;
(2) preliminary figures;
(3) first half year, preliminary figures.

Table 2:

Foreign direct investment in Austria by country of origin 1998-2002 (in percent of total equity)

Year	U.S.	Switzerland, Liechtenstein	Germany	U.K.	Netherlands	Others
1998	8	12	41	8	8	23
1999	8	13	41	6	7	25
2000	6	10	47	6	6	25
2001	6	8	44	11	8	23
2002	11	7	39	11	7	25

Table 3:

Foreign direct investment in Austria by industry sectors in 2002 (latest available figures)

Sector	Total equity (Euro million)	Employees in 1,000
Mining and energy:	365	1
Industry:		
Metals, machinery	1,820	27
Vehicles	487	11
Electrical engineering, Electronics	2,415	26
Petroleum, chemicals	3,621	15
Paper, wood	1,133	7
Textiles, clothing, leather	243	9
Food, drink, tobacco	916	7
Building and allied trades	602	8
Miscellaneous	60	1
Subtotal industry	11,297	111
Non-industry:		
Trade	8,695	71
Transport, communication	1,039	11
Tourism	240	6

Banking, insurance, finance	6,057	21
Real estate, business related services	13,703	22
Other services	94	2
Subtotal non-industry	29,828	133
Total	41,488	245

Note: differences due to rounding.

Table 4:

Austrian direct investment abroad 1998-2004

Year	Number of firms with Austrian direct investment	Nominal capital ---(Euro billion)---	Total assets (1)
1998	2,006	7.9	14.9
1999	2,095	9.3	19.0
2000	2,227	10.7	26.7
2001	2,319	14.3	32.4
2002	2,442	16.4	40.5
2003 (2)	n/a	n/a	46.7
2004 (3)	n/a	n/a	49.2

Footnotes:
(1) total assets comprises nominal capital, other equity including exchange rate adjustments, and net credit position;
(2) preliminary figures;
(3) first half year, preliminary figures.

Table 5:

Austrian direct investment abroad by country of destination 1998-2002 (in percent of total equity)

Year	U.S.	Germany	U.K.	Slovak Republic	Hungary	Czech Rep.	Others
1998	8	16	10	3	10	8	45
1999	8	14	9	3	9	7	50
2000	8	19	6	5	7	8	47
2001	7	18	6	6	8	8	47
2002	6	18	5	4	9	10	48

Footnotes
(1) preliminary figures.

Table 6:

Austrian direct investment abroad by industry sectors in 2002 (latest available figures)

Sector	Total equity (Euro million)	Employees in 1,000
Mining and energy:	1,538	8
Industry:		
Metals, machinery	1,337	23
Vehicles	242	6
Electrical engineering, Electronics	924	27
Petroleum, chemicals	1,816	26
Paper, wood	816	12
Textiles, clothing, leather	98	7
Food, drink, tobacco	501	9
Building and allied trades	2,666	31
Miscellaneous	74	6
Subtotal industry	8,474	145
Non-industry:		
Trade	4,405	50
Transport, communication	312	5
Tourism	76	2
Banking, insurance, finance	10,819	62
Real estate, business related services	14,260	25
Other services	627	2
Subtotal non-industry	30,500	147
Total	40,512	299

Note: differences due to rounding.

List of Major Foreign Investors:

Some 360 U.S. firms hold investments in Austria, which

range from simple sales offices to major production facilities. The following is a short list of U.S. firms holding major investments in Austria.

American Express Bank Ltd.
Andlinger & Company, Inc.
Baxter International Inc.
Capital Research and Management Company
Cisco Systems, Inc.
Citibank Overseas Investment Corp.
The Coca-Cola Company
CSC Computer Sciences Corporation
Deloitte & Touche LLP
Delphi Automotive Systems
Eastman Kodak Company
Electronic Data Systems Corp.
Exxon Corporation
General Electric Capital Corporation
General Electric Company
General Motors Corp.
Harman International Industries Inc.
Hewlett-Packard Company
Honeywell Inc.
IBM World Trade Corp.
ITT Fluid Technology Corp.
Johnson & Johnson Int.
Johnson Controls Inc.
Kraft Foods International, Inc.
Lear Corporation
Lem Dyn Amp
McDonald's Corporation
Marriott International, Inc.
Mars Inc.
MeadWestvaco Corp.
Merck & Co., Inc.
Modine USA
Otis Elevator Co.
Pioneer Hi-Bred International Inc.
PricewaterhouseCoopers LLP
PQ International Inc.
Quintiles Transnational Corp.
Schindler Elevator Corp.
Starwood Hotels and Resorts Worldwide, Inc.
Toys"R"Us, Inc.
United Global Com, Inc.
Unysis Corporation
Verizon Information Services Inc.
Western Union
Western Wireless International
Worthington Cylinder Corp.
York International
Xerox Corporation

The following is a brief list of firms headquartered in countries other than the U.S., holding major investments in Austria.

Alcatel Holding, Netherlands
Allianz AG, Germany
Amer, Finland
Asea Brown Boveri, Switzerland
Assicurazioni Generali, Italy
Aventis, Germany
Axel Springer Verlag, Germany
Bank for Foreign Trade, Russia
BASF, Germany
Bayer AG, Germany
Bayerische Motorenwerke (BMW), Germany
Bombardier, Canada
Bosch Robert AG, Germany
Borealis, Denmark
BP Amoco, UK
DaimlerChrysler, Germany
Detergenta Investment, Germany
Deutsche Telekom, Germany
Electricite de France, France
Electrolux, Sweden
Epcos AG, Germany
Ericsson, Sweden
Flextronics International, Singapore
Gallaher, U.K.
Heineken, Netherlands
Hipp, Germany
HypoVereinsbank AG (HVB Gruop), Germany
Infineon, Netherlands
Kone Corp., Finland
Koramic, Belgium
Liebherr, Switzerland
Magna, Canada
MAN, Germany
Mazda Corp., Japan
Mondi Europe, Luxembourg and UK
Nestle S.A., Switzerland
NKT Cables, Denmark
Novartis, Switzerland
Nycomed Holding, Denmark

Philips, Netherlands
Rewe, Germany
Rothenberger, Germany
RWE, Germany
Sappi Ltd, South Africa
Shell Petroleum N.V., Netherlands
Siemens, Germany
Smurfit Group, Ireland
Solvay Et Cie, Belgium
Sony, Japan
Sueddeutscher Verlag, Germany
Svenska Cellulosa Ab (SCA), Sweden
Unilever N.V., Netherlands
Voith, Germany
Westdeutsche Allgemeine Zeitung (WAZ), Germany
Westdeutsche Landesbank, Germany

BROWN